

AUDIT REPORT
FLEET MANAGEMENT DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Prepared By:

Internal Audits Section
Office of the Auditor/Controller-Recorder
January 29, 2001

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

January 29, 2001

James Morales, Interim Director
Fleet Management Department
210 North Lena Road
San Bernardino, CA 92415

Dear Mr. Morales:

We have completed a performance audit of the Fleet Management Department in compliance with Article V, Section 6 of the San Bernardino County Charter and the Board of Supervisor's Policy Statement on Internal Auditing. This report presents the results of the audited period July 1, 1999 through June 30, 2000.

This report is organized in the following sections: Background, Purpose and Scope, Prior Findings and Recommendations, Executive Summary, Overall Departmental Controls, Systems, Policies, and Procedures, Motor Pool, Garage/Warehouse, and Exhibits.

We would like to express our appreciation to the Fleet Management Department for their cooperation and assistance during this project. If you have any questions regarding this report, please contact Vicki Kratzke at (909) 386-8931.

Respectfully submitted,

San Bernardino County
Auditor/Controller-Recorder

A handwritten signature in black ink, appearing to read "Vicki Kratzke", written over a horizontal line.

Vicki Kratzke
Senior Internal Auditor
Internal Audits Section

VK:vlg

WILLIAM H. RANDOLPH
County Administrative Officer

BILL POSTMUS
JON D. MIKELS

Board of Supervisors
..... First District **DENNIS HANSBERGER**
.. Second District **FRED AGUIAR**
JERRY EAVES Fifth District

. Third Distri
Fourth Distri

FLEET MANAGEMENT DEPARTMENT

Table of Contents

	Page
Transmittal Letter	
Background	1
Purpose and Scope.....	1
Prior Findings and Recommendations	2
Executive Summary	4
Overall Departmental Controls, Systems, Policies, and Procedures	6
Administrative and Accounting Controls	6
Revenue and Receivable Controls	6
Purchasing and Payable Procedures.....	8
Cash Controls.....	9
Payroll Controls.....	11
Travel Claim Procedures	12
Information System and Management Reports	13
Information System Procedures.....	13
Management Reports.....	16
Organizational Structure and Functions of the Department	17
Policies and Procedures Manual	19
Customer Service Policies and Procedures	20
Motor Pool	22
Motor Pool Rates	22
Depreciation.....	25
Retained Earnings Reserved for Vehicle Replacement	27

Motor Pool Maintenance and Replacement Policies and Maintenance Expense	28
Garage Warehouse.....	31
Garage/Warehouse Rates.....	31
Accounting Procedures for Tracking Cost Center Revenue and Expenses	34
Voyager Credit Card Procedures.....	36
Exhibits 1-6	38

BACKGROUND

The County Administrative Office contacted the Internal Audits Section of the Auditor/Controller-Recorder's Office and requested a performance audit of the Fleet Management Department.

We completed the audit and sent a draft report to Fleet Management on March 22, 2001. We discussed the report at the Exit Conference on April 18, 2001. Fleet Management's responses to our recommendations dated May 22, 2001 are included in this report.

The Fleet Management Department functions as an Internal Service Fund organization that manages and maintains the County's Motor Pool. In addition, the Fleet Management Department oversees fueling centers, repairs heavy equipment, provides welding services, and manages a warehouse. The Fleet Management Department charges customer departments to cover costs of operations.

The management of the Fleet Management Department is responsible for establishing, maintaining, and monitoring internal controls. Internal controls include: (1) the control environment, (2) the accounting system, and (3) control procedures.

The control environment encompasses all the factors that determine the effectiveness of policies and procedures. The control environment reflects the overall attitude, awareness, and actions of the Fleet Management Department's management.

The accounting system encompasses the books and records and accounting methods that support the establishment of appropriate rates and preparation of the financial statements. Because the purpose of an internal service fund is to recover costs, accurate accounting records are crucial.

Control procedures are those policies and processes established by management to assure proper authorization of transactions, segregation of duties, and safeguarding of assets. The benefits of well thought-out and properly maintained control procedures may not be obvious; they are often measured only by the impact of what would have happened if the control procedures had not been in place.

PURPOSE AND SCOPE

Our audit was conducted to determine the Fleet Management Department's operating efficiency and effectiveness in performing its program duties and responsibilities. Our audit was performed in accordance with the standards developed by the Institute of Internal Auditors and covered procedures in effect July 1999 through June 2000. Our tests of transactions covered July 1999 to June 2000. We subdivided our assessment of Fleet Management into three areas. (I) Overall Departmental Controls, Systems,

Policies, and Procedures, (II) Motor Pool operations, and (III) Garage/Warehouse processes.

Specifically, audit work was performed to determine whether:

- ◆ Existing departmental Administrative and Accounting Controls are clearly defined and adhered to.
- ◆ Department's Information System provides management with adequate information to make decisions.
- ◆ Existing departmental policies and procedures are adequate and functioning effectively and efficiently for:
 - ◆ Monitoring Customer Service
 - ◆ Setting and evaluating rates.
 - ◆ Acquiring, maintaining, and replacing vehicles.
 - ◆ Issuing and overseeing Voyager Credit Cards.
- ◆ Rates are sufficient to cover costs of:
 - ◆ Motor Pool operations.
 - ◆ Vehicle Maintenance.
 - ◆ Vehicle Replacement.
 - ◆ Garage/Warehouse operations.

The audit work performed would not necessarily disclose material weaknesses in the system of internal controls.

Subsequent to the date of this audit report, other matters were brought to the attention of the Auditor/Controller-Recorder's Office. These matters are in the course of being addressed and are not included in this report.

PRIOR FINDINGS AND RECOMMENDATIONS

Fleet Management's prior audit report dated May 23, 1994 contained 18 findings. We followed-up on the responses to our recommendations. Five of the recommendations no longer apply as they relate to specific vendors whose services are no longer used by Fleet Management. Ten of the thirteen remaining recommendations, involving internal controls, policies and procedures, and Fleet Management's rate structure, required further attention and are addressed as follows:

Prior Finding Number	Subject	Addressed
1	Depreciation and Inflation	Findings 11 and 12
3	Aging fleet - Maintenance Expense	Finding 14
5	Cost incorrectly charged to maintenance	Finding 14
6	Inappropriate maintenance activity	Finding 14
7	Transmissions repaired by two vendors	Finding 14
8	Discrepancies in invoice totals-duplicate payments	Finding 2
12	Two bids for auto body repair	Findings 2 and 14
15	Written Policies and Procedures	Finding 9
17	Controls over fueling of vehicles	Finding 17
18	Refund of Diesel Fuel Tax	Finding 1

Two of the remaining recommendations for findings 2 and 4, regarding excessive vehicles and controls for release of vehicles, were addressed verbally. Finding 16, regarding the use of Fleet Management's services by other County Departments, is addressed in the Executive Summary.

EXECUTIVE SUMMARY

The Fleet Management Department is an Internal Service Fund that provides for the operation and maintenance of the County's Motor Pool. In addition, Fleet Management:

- ◆ Repairs heavy equipment.
- ◆ Provides welding services.
- ◆ Operates fueling centers.
- ◆ Manages a warehouse that provides parts and related construction materials to support fleet operations.

Fleet Management accounts for its operations under two separate divisions:

- ◆ Motor Pool, which operates the motor pool and oversees the maintenance of the motor fleet.
- ◆ Garage/Warehouse, which performs the maintenance and provides fuel, repair and field service for the fleet of vehicles and heavy construction equipment, and supplies parts and related construction materials to support the fleet operation.

The Motor Pool division operates as an internal service fund with rental rates on fleet vehicles to provide for replacement, fuel, insurance, overhead, maintenance, and other operational costs. The Motor Pool currently has ownership and responsibility for over 1,750 automobiles, vans, pickup trucks, and various specialty vehicles. Approximately 1,550 of the vehicles are assigned to county departments, with the remaining 200 vehicles available from the Motor Pool for daily usage.

The Garage/Warehouse operates as an internal service fund and provides maintenance, repairs, fuel, and field service for most of the county's 4,740 vehicles with the exception of the Sheriff's Department and Special District departments. The Sheriff's Department and Special District departments only purchase fuel from Fleet Management.

An approximate breakdown of the county's 4,740 vehicles is illustrated in the following table. Motor Pool vehicles are located at various county departments.

Department	Number of Vehicles
Fleet Management's Motor Pool	1,750
Transportation/Flood Control	352
Social Service Group	511
Special Districts	500
Sheriff's Department	1,627

Through June 30, 2000, the Fleet Management Department included Central Stores, which stocked and supplied stationery, forms, janitorial, and other miscellaneous supplies to County departments. As part of the reorganization of the Internal Services Group implemented to improve customer service to county departments, Central Stores transferred to the Purchasing Department effective July 1, 2000.

We developed an understanding of the Fleet Management Department systems, procedures, processes, and fund structure by testing available data, reviewing budget information, observing operations, and interviewing personnel.

In summary, we recommend Fleet Management:

- ◆ Improve cost accounting procedures in order to develop reliable rates.
- ◆ Consistently apply internal controls to safeguard cash and inventory.
- ◆ Redesign the information system to improve efficiency and provide management with comprehensive data.
- ◆ Continue customer surveys which currently indicate a high level of customer satisfaction.
- ◆ Develop and implement vehicle replacement and repair policies using industry standards as a guideline to obtain complete and reliable information.

(I) OVERALL DEPARTMENTAL CONTROLS, SYSTEMS, POLICIES, AND PROCEDURES

Fleet Management is a diverse department with numerous functions. In addition to operating and maintaining the motor pool, Fleet Management manages a business office, a safety office, two warehouses, a tire shop, a weld shop, a parts shop, repair garages for cars, trucks, and heavy equipment, and twenty-two fuel centers. Fleet Management also runs four service centers located in Barstow, Needles, Twenty-Nine Palms, and the West Valley that provide maintenance and repairs for motor pool vehicles in those regions of the county. In our audit of Fleet Management, we analyzed the following areas of the administrative function:

ADMINISTRATIVE AND ACCOUNTING CONTROLS

A. Revenue and Receivables Controls

1. Reclassifications to distribute revenue from the overhead account to cost centers have not been accurate. Cost of goods transferred from inventory to cost centers is not tracked. Failure to track cost of goods transferred causes Cost of Goods Sold to be overstated or understated, and makes it virtually impossible to determine actual expenses per cost center. Without accurate cost information, cost recovery, the lifeblood of an Internal Service fund, cannot be achieved.

The Fleet Management Department receives most of its revenues through Request for Transfers, which are prepared in the Business Office and posted in the county's Financial Accounting System (FAS). Check payments are logged in, endorsed, and receipted by Business Office personnel. Deposits are prepared, recalculated, and approved by separate personnel in the Business Office. FAS reports are reconciled to the Cash Journal. Checks are deposited weekly, or more often if necessary. Revenues received by check are coded to Cost Centers as received. Revenues received by transfers are coded to Overhead (OVH) or Vehicle Services (VHS) cost centers. OVH and VHS revenues are subsequently reclassified to Garage/Warehouse cost centers.

Fleet Management uses reports generated by the computer information system to prepare invoices and transfers. The Business Office uses the Distribution Listing report to invoice Garage/Warehouse charges. The Motor Pool uses a separate listing to bill departments for fixed and variable costs per vehicle.

When the department distributes revenue from OVH and VHS cost centers to the Garage/Warehouse cost centers, there has been no reconciliation to the original Request for Transfer. This resulted in OVH showing a negative \$1.4 million in revenue

for fiscal year 2000 and cost center VHS showing \$354,000 in revenue for fiscal year 2000. With proper reclassification, these cost centers would show zero income at the end of the fiscal year.

Cost of Goods Sold by cost center cannot be accurately determined, as cost of goods transferred from inventory to cost centers is not recorded. Approximately one half of all goods purchased by the Parts Room, which is included in the Auto Shop cost center, are dispersed to other cost centers. Because cost of the goods is not transferred, the Auto Shop cost center overstates purchases while other cost centers understate theirs.

A well-organized accounting system is the foundation for a strong control structure. Reconciling revenue reclassifications to original documents provides assurance that transactions are accurately recorded. Recording the cost of goods transferred from one cost center to another produces accurate records for determining income or loss per cost center.

Our recommendations:

- ◆ Reconcile revenue to the original Request for Transfer after distributing revenue from OVH or VHS to various cost centers.
- ◆ Track the cost of goods transferred from one cost center to another so an accurate Cost of Goods sold can be determined.

Fleet Management Department's Response

1. We concur. During the course of this audit (Audit Report, Fleet Management Department for the F/Y ended June 30, 2000) operational suggestions were made by the Internal Audits Section staff that were responded to by this Department by implementing the recommended procedures.
2. We concur. Currently the Garage Distribution System does not allow for accurate tracking of goods between cost centers. We anticipate the new Fleet Management Information System/Information Management System will allow us to more accurately track/perform this vital function.

B. Purchasing and Payable Procedures

2. There is no segregation of duties between the ordering of goods, the receiving of goods, and authorizing payment of goods. Fleet Management does not enter direct purchase items into the computer as inventory. The Warehouse and Parts Room receive a copy of the original invoice and input price information into the system. Original invoices for Direct Purchases, paid with petty cash, are not marked "PAID."

A supervisor or one of the employees orders goods after obtaining three bids. Goods will be either a purchase of stock, recorded as inventory, or a direct purchase. An employee verifies goods and quantity received. The warehouse or parts room receives a copy of the original invoice from the Business Office, and the supervisor or another employee verifies quantity and price and enters pricing information into the Public Service Group (PSG) system that is used to track inventory. The warehouse or parts room notifies the Business Office that the information is input and the Business Office processes the invoice for payment.

There is currently no segregation of duties between the ordering of goods, the receiving of goods, and the authorization of payment for goods. In addition, the same people who perform these tasks receive a copy of the original invoice for the goods and enter the information into the computer system. Fleet Management does not enter direct purchase items into the computer as inventory. Personnel enter direct purchase information on work orders after receipt of the original invoices which delays billing on work orders.

Assigning an employee concurrent duties allows the employee complete control over a transaction. Effective segregation of duties, i.e.: authorization of transactions separated from the execution of transactions, reduces the risk of errors and fraud. Separating custody of assets from the record keeping related to the assets strengthens internal controls. A critical step in safeguarding assets is to record them at the time of acquisition.

Our recommendations:

- ◆ Separate the duties of ordering and receiving goods.
- ◆ Input direct purchase information into the system and track it in the same manner as inventory.
- ◆ Enter pricing information for direct purchases when they are ordered.
- ◆ Mark invoices "PAID" as they are paid.

Fleet Management Department's Response

1. We concur. During the course of this audit (Audit Report, Fleet Management Department for the F/Y ended June 30, 2000) operational suggestions were made by the Internal Audits Section staff that were responded to by this Department by implementing the recommended procedures.
2. We concur. However, at this time, we cannot comply with this recommendation due to the inability of the current system to perform this function. We anticipate the new Fleet Management Information System will address this issue.
3. We concur. However, at this time we cannot comply with this recommendation due to the inability of the current system to perform this function. We anticipate the new Fleet Management Information System will address this issue.
4. We concur. Direct purchase invoices will be stamped paid as they are paid out of petty cash.

C. Cash Controls

3. Fleet Management does not adequately safeguard petty cash. Access to petty cash is not restricted. Established procedures are not followed for authorizing and accounting for petty cash. Management does not monitor or have physical control of one of the Petty Cash funds. There is not an adequate segregation of duties.

Fleet Management has \$7,500 in Petty Cash funds and expended \$47,465 in fiscal year 2000 through petty cash.

The Garage:

- ◆ Has a \$4,000 checking account.
- ◆ Has two \$500 cash funds.
- ◆ Appointed a fiscal Clerk custodian of the checking account and one of the \$500 cash funds.
- ◆ Appointed the Interim Director custodian of the other \$500 cash fund.

The Motor Pool:

- ◆ Has a \$2,000 checking account.
- ◆ Has a \$500 cash fund.
- ◆ Appointed a fiscal clerk custodian of the checking account.
- ◆ Appointed the Interim Director custodian of the \$500 cash fund.

A review of the petty cash fund reimbursements revealed that cash fund expenditures were appropriate with respect to amounts and nature of purchases. There were no expenditures in excess of \$250, petty cash was not used for payment of services or for purchases of equipment or fixed assets, and there were no disbursements made for employee travel expenses.

Too many people have access to the petty cash funds and funds are not well secured. Three employees have access to the two \$500 Garage cash funds including the person who approves the FAS voucher for reimbursement. Four employees have access to the \$500 Motor Pool cash fund. The Garage cash fund is kept in an unlocked cash box in an open safe. The cash box is unlocked because the keys are misplaced. The Motor Pool cash box keys are in a receptacle on an employee's desk. Access to the keys is not restricted.

Fleet Management does not cancel receipts or invoices for petty cash disbursements and a signature showing receipt of the cash is not required. In addition, many of the petty cash vouchers did not have an authorizing signature.

Although Central Stores became part of the Purchasing Department on July 1, 2000, as of December 15, 2000, the \$500 cash fund that belongs to the Garage has not been returned. We discussed this issue with the Interim Director at the beginning of the audit, but after several months, the issue is not resolved. The Interim Director of Fleet Management is also the fund custodian for two cash funds. One of the funds is located at Central Stores; the other is the Motor Pool cash fund. Because the Interim Director has custody of the cash, he can authorize disbursements of cash and approve FAS vouchers for reimbursement of the cash. Consequently, there is no segregation of incompatible duties.

Money kept in a secured place with limited access is not as susceptible to misplacement or theft. Proper authorization of cash disbursements and cancellation of receipts helps to prevent duplicate and/or invalid payments. Monitoring cash funds provides assurance that payments are for allowable items. When management does not have physical control of its cash, unauthorized payments can occur. Effective segregation of duties reduces the risk that any one person could divert county funds and conceal fraud.

Our recommendations:

- ◆ Restrict access to cash to two employees and replace missing Garage cash box keys.
- ◆ Keep keys to both the Garage and the Motor Pool cash boxes in a secure location.
- ◆ Require that all petty cash disbursements be authorized and ensure that signatures are required for receipt of cash.
- ◆ Cancel all receipts and invoices to avoid duplicate payments.

- ◆ Contact Purchasing to return the Central Stores petty cash fund to Fleet Management.
- ◆ Reassign custodial duties of petty cash funds. Replace the current custodian with an employee who does not have authority to authorize expenditures or approve FAS reimbursement vouchers.

Fleet Management Department's Responses

1. We concur. During the course of this audit (audit report, Fleet Management Department for the F/Y ended June 30, 2000) operational suggestions were made by the Internal Audits Section staff that were responded to by this department by implementing the above recommended procedures.
2. We concur. During the course of this audit (audit report, Fleet Management Department for the F/Y ended June 30, 2000) operational suggestions were made by the Internal Audits Section staff that were responded to by this department by implementing the above recommended procedures.
3. We concur. During the course of this audit (audit report, Fleet Management Department for the F/Y ended June 30, 2000) operational suggestions were made by the Internal Audits Section staff that were responded to by this department by implementing the above recommended procedures.
4. We concur. During the course of this audit (audit report, Fleet Management Department for the F/Y ended June 30, 2000) operational suggestions were made by the Internal Audits Section staff that were responded to by this department by implementing the above recommended procedures.
5. We concur. During the course of the audit the Petty Cash Fund at Central Stores was closed and returned to Fleet Management.
6. We concur. The Cash Fund Custodian has been reassigned from a manager to a Fiscal Clerk III.

D. Payroll Controls

4. Payroll costs are incorrectly posted to cost centers.

As Garage/Warehouse employees are hired, the Business Office personnel assign them to one of the cost centers within fund ICB. The labor expenses per cost center are determined through this process.

Fleet Management does not verify if employees are assigned to the correct cost center. Consequently, errors in the posting of labor costs were significant, and accurate labor

costs per cost center could not be determined through FAS records. Differences between FAS records and actual labor costs constructed from EMACS payroll records include:

- ◆ Fuel and Security labor cost per FAS records \$407,325 versus \$436,897 actual labor costs.
- ◆ Business Office labor costs per FAS records \$707,471 versus \$693,008 actual labor costs.
- ◆ Warehouse labor costs per FAS records \$84,810 versus \$179,982 actual labor costs.

Accurate records are crucial for determining labor expenses for cost centers.

Our recommendations:

- ◆ Review EMACS reports for classification of employees to correct cost center.

Fleet Management Department's Response

1. We concur. During the course of this audit (Audit Report, Fleet Management Department for the F/Y ended June 30, 2000) operational suggestions were made by the Internal Audits Section staff that were responded to by this Department by implementing the recommended procedures.

E. Travel Claim Procedures

5. Fleet Management does not reconcile travel claim expenditures charged on Request for Transfers to FAS reports.
--

Fleet Management orders airline tickets and charges them to a Visa credit card when department personnel attend conferences/seminars that require air travel. The Auditor/Controller-Recorder's office receives the Visa statement, pays the bill, and mails a copy of the statement to the department. The Auditor/Controller-Recorder's office prepares and processes a Request for Transfer charging the department for the expense. The Business Office receives a FAS report which illustrates all charges made against the department's funds.

Fleet Management was mistakenly charged \$2,467 for airfare. The mistake was not discovered because the Business Office did not reconcile the FAS report to expenses.

Reconciling expenses against reports provides assurance that transactions recorded are valid charges to the department.

Our recommendations:

- ◆ Reconcile expenses on FAS reports to actual expenses monthly.

Fleet Management Department Response

1. We concur. During the course of this audit (Audit Report, Fleet Management Department for the F/Y ended June 30, 2000) operational suggestions were made by the Internal Audits Section staff that were responded to by this Department by implementing the recommended procedures.

INFORMATION SYSTEM AND MANAGEMENT REPORTS

A. Information System Procedures

6. Although actual and billed labor hours are input into the system, the Management Reports do not provide for actual and billed labor hours. When manually written work orders are entered in the system, descriptions of work performed are inaccurate or incomplete. Work orders are not summarized into one report per vehicle resulting in fragmented maintenance data. Fleet Management does not retain original work orders. There are no written procedures for information processing.

Fleet Management currently uses two main information systems. They use the Public Service Group (PSG) system for work orders and inventory maintenance. Second, they use the county's Financial Accounting System (FAS) for financial accounting records. Both systems are accessible through the Information Services Department (ISD) mainframe. ISD also produces the PSG system reports for Fleet Management. Most department personnel have access to, and are familiar with, personal computers and the software programs used by Fleet Management. The Business Office uses Microsoft products for record keeping. Quicken is used for Accounts Receivable information and billing. All Business Office and Motor Pool personnel, as well as a few supervisors, have e-mail access. A few Business Office personnel have Internet access. Fleet Management backs up files to ISD nightly for security. Fleet Management's Business Office is equipped with a security system, and guards monitor Fleet Management's buildings and grounds at night.

When vehicles are brought to the Garage for repairs or maintenance, a Service Writer inputs the vehicle number and mileage into the PSG system. The PSG system generates a printed, sequentially numbered work order. The work order accompanies the vehicle to the repair shop. A supervisor or mechanic manually writes the parts used

and the number of hours spent on repairs on the work order. After the repairs/maintenance are completed, the work order is returned to the Service Writer's office. A Service Writer inputs the handwritten information into the PSG system. All work order information is summarized on the Garage Distribution listing, which the Business Office uses for monthly billings. Billings are sent to all departments that purchase goods or services from the Garage/Warehouse. The Motor Pool is billed for all repairs and maintenance performed on Motor Pool vehicles by the Garage. The Motor Pool staff use an additional report to bill fixed and variable monthly charges to user departments. A flowchart for the Work Order Process is located at Exhibit 1. A flowchart for the Motor Pool Process is located at Exhibit 2.

The warehouse and parts room also use the PSG system for inventory maintenance. The system automatically updates quantities remaining as items are sold. The system also updates quantities and average prices when information from invoices is input. All sales are listed on the Garage Distribution listing and billed to the appropriate departments. Transaction reports generated by the PSG system detail inventory items sold and purchased. A flowchart of the Warehouse Sales Process is located at Exhibit 3.

There are no written procedures for the above processes. Actual repairs are difficult to determine because abbreviations used to input handwritten work orders into the system are not standardized. Vital information is often omitted. Although actual and billed labor is input on the automated work order, a report showing actual versus billed labor is not available making it difficult to track productivity of the auto shop employees. Source documents are not available for cross-referencing because original work orders are destroyed after 60-90 days. The system does not track work orders per vehicle, so maintenance data per vehicle is not readily available. Compilation of repairs and maintenance data per vehicle is difficult and cumbersome. Consequently, there is no review for reasonableness of charges. In addition, customers cannot review services performed or charges to their vehicles.

Written policies and procedures contribute to internal control as well as consistency in information processing. Standard abbreviations eliminate confusion both for the person inputting the information and the person reviewing the information in the system. Reports that show actual and billed hours per work order assist in analyzing productive hours and setting hourly rates. Maintaining work order histories per vehicle facilitates effective maintenance evaluations and reduces unnecessary repairs. Maintaining source documents provides support for work performed.

Our recommendations:

- ◆ Develop and implement procedures for information processing.
- ◆ Develop and implement standard abbreviations for information input.
- ◆ Discuss with ISD the possibility of creating a report that shows actual and billed labor hours.

- ◆ Create a maintenance file for each vehicle and retain original work orders in the file.
- ◆ Create maintenance spreadsheets for each vehicle showing date and type of maintenance done.
- ◆ Provide customers with an itemized statement of work performed and cost of service each time a vehicle is serviced.

Fleet Management Department Responses

1. We concur. The Fleet Management Department is currently seeking a new Fleet Management Information System (FMIS) aimed at improving operational efficiency and customer service. When a vendor is chosen, Board Approval is targeted for August, with installation, data conversion, training, testing, etc. to be completed no later than four months after Award of Contract. Procedures related to information processing will be implemented at that time.
2. We concur. The new Fleet Management Information System will have the ability to input standard recurring data using bar code technology. Therefore, our mechanics will be able to scan a bar code for work performed. Handwritten entries should be reduced.
3. We concur. The new Fleet Management Information System will provide for a system that would include a wide variety of standard management reports and the ability to easily tailor standard reports to meet Departmental and County needs. It will also have the ability to generate ad hoc reports based upon user defined criteria.
4. We concur. The new Fleet Management Information System will provide the ability to maintain multiple years of data on-line and provide the ability to obtain a system snap shot for any given period. We currently and will continue to retain actual Work Orders for six months; however, the Work Order billing will be archived in the system for the life cycle of the vehicle, and retained indefinitely on compact disc.
5. We concur. The new Fleet Management Information System will provide an easy to use feature to archive and retrieve historical data. Work order data will be captured to provide this information.
6. We concur. The new Fleet Management Information System will provide the ability to produce customer invoices separating maintenance, replacement, warranty, and administrative charges.

B. Management Reports

7. Many of Fleet Management's reports are unused or under-utilized. Essential reports do not show totals. Report column headings do not accurately depict column contents. Some numbers on reports have no justification. Fleet Management's personnel must review and combine several reports to obtain complete information. Department personnel are unaware of the source of the data on reports.

Numerous management reports are prepared for the department. The reports detail goods and services sold, inventory amounts, direct purchase information, vehicle mileage and maintenance, and vehicle revenues and expenses. The Business Office uses the reports for monitoring, billing, and reporting purposes. Rather than having a few reports that summarize data, Fleet Management has an excessive number of reports each containing a small amount of useful data. A change in personnel, combined with no documentation on reports, has led to little or no understanding of these reports by the users. Management does not review reports periodically for usefulness.

Fleet Management receives a report that details Direct Purchases per month, but does not use the report to add frequently purchased items to inventory. Inventory listings are not analyzed to identify and delete obsolete and slow-moving inventory. Life-to-Date Revenue and Expense reports are not totaled. Life-to-Date Revenue and Expense report column headings do not reflect column contents. Vehicle replacement fees are referred to as depreciation on the report column heading. Vehicles that do not have replacement fees collected have dollar values in the inflation column on the Life-to-Date Revenue and Expense report. If no replacement fees are collected, the value in the inflation column must equal zero. Life-to-Date Revenue and Expense reports are not reviewed periodically for vehicles with excessive maintenance or to determine which vehicles should be replaced based on money collected for replacement.

Fleet Management has performed excessive maintenance on numerous vehicles because these reports are not used. The Motor Pool currently has 275 vehicles whose maintenance costs exceed their purchase price; this represents 18% of the fleet. The department is unable to reconcile the Retained Earnings Reserved for Vehicle Replacement to actual money collected, as the Life-to-Date Revenue and Expense report does not total any of the columns. Reconciling revenues and expenses between operating reports and fiscal reports is difficult, as operating reports are not issued on a calendar month schedule.

Management reports offer information used to make financial and operating decisions. Using available reports increases operating efficiency.

Our recommendations:

- ◆ Modify reports to show totals.
- ◆ Modify column headings to describe column contents.
- ◆ Investigate dollar values in columns where no dollar value should appear.
- ◆ Review reports periodically for usefulness.
- ◆ Restructure reports as necessary to maximize useful information contained in the reports.
- ◆ Document the information contained in reports and how to use the information.
- ◆ Educate employees on the information provided in the reports and how to use the information.

Fleet Management Response

- We concur with all of the recommendations. The new Fleet Management Information System will provide reports ranging from daily out of service to charge back reports. Also, the new system will have the ability to generate ad hoc, exception, and cumulative total revenue reports. We expect the system to provide user friendly reports that can be easily interpreted.

Organizational Structure and Functions of the Department

8. The Business Office Supervisor who monitors finances of the department does not provide input on financial decisions made in the various cost centers. Blanket purchase orders are exceeded, budgeted amounts are not adhered to, and finances are not considered before vehicles are purchased or repaired, as the Business Office is not consulted before transactions occur.

Because of its diverse operations, Fleet Management is organized into six sections – each having three to six functions. (The Organizational Chart of Fleet Management, formerly known as Vehicle Services, is located at Exhibit 4). The Motor Pool includes all functions of the County fleet including dispatching, replacing, maintaining, and billing for motor pool vehicles. The Garage section manages the repairs of autos and heavy equipment, and oversees the weld shop and parts sections. The Garage section includes the outlying Service Centers. The Warehouse section includes the general warehouse, a tire shop, and two storerooms. The Fuel and Security section controls fuel purchases as well as the Compressed Natural Gas program. The Safety Office is responsible for monitoring Worker's Compensation and OSHA requirements and reporting, as well as overseeing emergency coordination. The Business Office is in charge of all accounting as well as payroll and monthly closing.

There is no clear correlation between the sections for coordinating purchases or for reporting purposes. Currently, each section orders goods as needed. Purchase orders are exceeded, budgets are overrun, and cash flow problems occur because the Business Office is not being consulted before purchases are made. In addition, excessive vehicle repairs may occur due to timing of vehicle purchases. Presently vehicle purchases are done on an annual basis. If a vehicle requires major repairs or replacement between annual vehicle purchases, the vehicle is repaired rather than replaced through a local dealer, as the price through the dealer exceeds the fleet price. Subsequently, the vehicle is not replaced at the next annual vehicle buy, as management tries to recoup the cost of the repairs by keeping the vehicle another year. This practice has contributed to excessive maintenance costs and a fleet of vehicles with an average age of six years.

Ideally, departmental organization reflects a direct and clear correlation between sections of a department. Although sections may operate independently of one another, a relationship between the sections and the business office provides assurance that budgeted amounts are adhered to and purchase orders do not exceed allowable amounts. Safeguarding of assets includes periodically verifying the value of those assets, including the costs of maintaining the assets versus replacing them.

Our recommendations:

- ◆ Instruct Garage/Warehouse sections to coordinate purchases with the Business Office Supervisor.
- ◆ Include the Business Office Supervisor in the financial decision making process for the Motor Pool.
- ◆ Analyze the costs of repairing a vehicle versus buying a replacement vehicle at a local dealer to determine the overall cost benefit when major repairs are necessary between annual vehicle buys.

Fleet Management Department's Response

1. We concur. On May 8, 2001, the interim director initiated a procedure to monitor purchases. All purchases, other than stock for resale, will be coordinated with the administrative supervisor of the Business Office.
2. We concur. The Business Office Supervisor has become an active participant in meetings and decisions regarding Motor Pool expenditures and yearly vehicle purchases.
3. We concur. We will conduct a cost benefit analysis on vehicle repair versus replacement. Although, many times a vehicle can be repaired and returned to service in a timely manner. The process of expenditure approval, sending out bid requests and having them returned can extend the time and production lost due to a

vehicle being out of service. Also, vehicles acquired off a dealer's lot are equipped with options and special features such as special paint, leather interior, CD players, etc., resulting in considerably higher prices.

Policies and Procedures Manual

9. Fleet Management does not update its policies and procedures manual to reflect changing economic and business conditions within the department. Fleet Management does not consistently apply or adhere to written policies and procedures.

The Fleet Management Policies and Procedures manual was written in 1992. The most recent updates to the manual were made in 1995. Although specific subjects are included in the manual, some of the topics are outdated and vague. Some topics, including "Vehicle Maintenance Objectives" and "Replacement Policies" which are specific, are not adhered to. Vehicle Maintenance Objectives states that vehicle replacement should occur, "at appropriate periods when expensive and extensive repairs are needed..." Another section, "Replacement Policies" specifies, "Cost of modification, installation, and removal of special equipment on vehicles will be billed to the appropriate department." As detailed in the Motor Pool section of the audit report, vehicles are not replaced in a timely manner, extensive repairs are done, and additional equipment is not consistently billed to user departments. Other problems with the manual include a vague reference to "repair expenditure limits." The reference to these limits is a contradiction, as the policy suggests that repair expenditure parameters and guidelines be established, but gives no direction on the criteria to establish them.

A policies and procedures manual contributes to internal control as well as consistency in administrative functions. The manual should include policies and procedures for setting and reviewing rates, ordering and storing inventory, and repairing and replacing vehicles.

Our recommendations:

- ◆ Update the Policies and Procedures manual for all essential functions and be as specific as possible.
- ◆ Review and update the manual annually or more often if necessary.
- ◆ Include policies and procedures for setting and reviewing rates, ordering and storing inventory, and repairing and replacing vehicles.
- ◆ Develop measures to ensure department personnel adhere to policies and procedures.

Fleet Management Department's Response

- We concur with all of the recommendations. The Department plans to review, update, and rewrite Department policies and procedures once we convert to the new Fleet Management Information System in November or December 2001.

Customer Service Policies and Procedures

10. Responses to auditor's Customer Satisfaction Survey are positive. Customer Service Policies are not documented. Fleet Management does not track customer comments, concerns, and complaints, although they have implemented a customer survey/information sheet.

We sent a Customer Satisfaction Survey to twenty of Fleet Management's user departments. We asked the departments to forward the survey to drivers of the vehicles. We received 126 responses to the survey. The survey results were generally favorable. For a copy of the survey, see Exhibit 5. Results of the survey are as follows:

SUMMARY OF CUSTOMER SERVICE SURVEY RESULTS	NUMBER OF RESPONDENTS	AVERAGE SCORE
QUESTION ASKED		
Convenience of Garage locations and hours?	126	4.14
Convenience of gasoline pump and car wash locations?	126	3.84
Timeliness of service provided by Vehicle Services Garage?	126	4.21
Quality of service provided by Vehicle Services Garage:	126	4.21
Quality and quantity of information provided relating to maintenance and repairs?	123	3.62
Quality and reliability of Motor Pool vehicles?	126	3.65
Fairness of Motor Pool rates?	67	3.24
Courtesy of Vehicle Services Staff?	126	4.30
* Based on a scale of 1-5 (1=poor; 5=excellent)		

Fleet Management currently has no formal written procedures for tracking and responding to customer comments or complaints. Although Fleet Management communicates with Department personnel regarding vehicle replacement, communication with customers concerning vehicle maintenance has been minimal. There is no effective means of tracking customer concerns, comments, and complaints. During the audit, Fleet Management implemented a Customer Survey that notifies customers of the service done to their vehicles and identifies the mechanics that performed the service. Customers have an opportunity to rate service and timeliness on the survey form and return the survey form via interoffice mail for convenience. For a copy of the survey, see Exhibit 6. According to the Interim Director of Fleet Management, the responses to the survey are positive.

High quality customer service is key to acquiring and retaining customers. High quality customer service includes performing maintenance in a timely manner and informing

customers as to what was done to their vehicles. Excellent customer service also includes logging customer comments, complaints, and concerns to track and remedy recurring problems.

Our recommendations:

- ◆ Develop and implement standard customer service policies.
- ◆ Track comments, concerns, and complaints to ascertain if patterns exist.
- ◆ Continue to survey customer's opinions.

Fleet Management Department Responses

- We concur with all of the recommendations. The Department intends to develop a formal written policy for inclusion into our policies and procedures manual. Service, comments, complaints, and corrective actions will be addressed.

(II) MOTOR POOL

The Motor Pool operates the County's motor fleet. The Motor Pool is responsible for vehicles permanently assigned to departments and those rented out on a daily, weekly, or monthly basis. The Motor Pool tracks maintenance on motor fleet vehicles and authorizes the purchase of replacement vehicles. The Motor Pool is responsible for license and registration renewals for all county vehicles. Motor Pool personnel track monthly mileage and perform billing functions for both fixed and monthly fees.

In our analysis of the Motor Pool, we evaluated the maintenance and replacement policies for Motor Pool vehicles. We chose a sample of twenty vehicles and evaluated their maintenance expense as well as the system used to track expenses. We analyzed current rates and their structure. We made inquiries about the frequency and processes involved in rate reviews. We researched average maintenance and fuel costs, and compared those averages to Fleet Management's rates. In addition, we made inquiries about vehicle depreciation schedules and studied Retained Earnings Reserved for Vehicle Replacement.

Motor Pool Rates

11. The Motor Pool does not monitor or adjust rates annually to reflect changes in expenses. Management does not compute estimates of replacement costs and compare them to actual amounts collected for vehicle replacement to determine if rates need to be adjusted. Insurance fees included in the Motor Pool rates exceed insurance premiums. There is no provision in the rates for expenses due to unavoidable accidents. Vehicle Replacement fees continue to be charged after replacement cost is collected. Fleet Management does not maintain accurate records to efficiently replace vehicles.

The Motor Pool charges a fixed monthly rental rate per vehicle to recover the costs of insurance, overhead, and vehicle replacement. The insurance component is calculated from Risk Management's yearly billing. The insurance charges are for liability insurance only. The overhead is calculated using salary and office expenses of the Motor Pool. Replacement fees are determined using a future value formula that sums the purchase price and an inflation factor. This sum is divided by the number of years the vehicle is expected to be in service.

Insurance and overhead fees are collected as long as the vehicle is in service. According to Standard Procedure 4-01, replacement fees are to be collected until the projected replacement value is reached.

Fleet Management disposes of vehicles through an auction service. A few other county departments including Probation and Human Services System also use the auction

service to sell unwanted vehicles. Although vehicles other than Motor Pool vehicles are sold at the auction, Fleet Management's Motor Pool receives all proceeds. Fleet Management deposits the proceeds of the auction into the Motor Pool fund and distributes them to the proper departments by a Request for Transfer.

In addition to the fixed monthly rental rates, the Motor Pool charges a variable rate per mile to recover the cost of gasoline and maintenance. There has been no change in the rates since 1995.

Following is a breakdown of the current rates:

Composition of Fixed Monthly Rates:

<u>Vehicle Type</u>	<u>Insurance</u>	<u>Overhead</u>	<u>Replacement Cost</u>	<u>Total</u>
Compact	\$ 100	\$ 60	\$ 180	\$ 340
Mid-size	100	60	195	355
Full-size	100	60	250	410
Other	100	60	290	450

Composition of Variable Rate:

<u>Vehicle Type</u>	<u>Fuel and Oil</u>	<u>Maintenance</u>	<u>Total</u>
Compact	\$ 0.05	\$ 0.12	\$ 0.17
Mid-size	0.06	0.12	0.18
Full-size	0.08	0.17	0.25
Other	0.10	0.27	0.37

Motor Pool vehicles not assigned to specific departments are available for daily, or monthly rental at the following rates:

<u>Vehicle Type</u>	<u>Monthly Rate</u>	<u>Daily Rate</u>	<u>Half Day Rate</u>	<u>Mileage Rate</u>
Compact	\$ 340	\$ 19	\$ 13	\$ 0.17
Mid-size	355	21	14	0.18
Full-size	410	21	14	0.25
Other	450	27	17	0.37

Compact includes compact sedans and compact pickups.

Mid-size includes mid-size sedans, minivans, CNG minivans, and mid-size trucks.

Full-size includes full-size sedans, full-size trucks, full-size vans, and full-size CNG vans.

Other includes crew cab trucks, flat bed trucks, and four-wheel drive vehicles.

Although the liability insurance component of the fixed rates is double the cost of the insurance expense, Fleet Management has not adjusted the rates accordingly. Current cost per month per car for liability insurance is \$50. There is no provision in the rates

for collision or comprehensive coverage when an accident is unavoidable. (Preventable accidents are discussed in finding 14). Estimating the annual cost of collision and comprehensive repairs is challenging, as no records are kept on the costs of these repairs.

Fleet Management's Policy states that cars should be replaced every six years. However, using the current rates, the fees collected for replacement are not sufficient to enforce the policy. When vehicles are retained for longer periods, adequate replacement fees are collected, but Fleet Management does not automatically replace the vehicles. There are numerous vehicles where adequate amounts of replacement fees have been collected, but Fleet Management continue to charge replacement fees. We noted the following examples:

Vehicle Number	Purchase Price	Amount Collected For Replacement
01368	\$8,053	\$20,360
01015	\$9,733	\$20,026
05526	\$10,429	\$25,429
05775	\$10,877	\$30,688
08607	\$11,510	\$50,158
08971	\$11,872	\$50,584
08614	\$13,135	\$42,809
05418	\$14,238	\$33,569
05275	\$15,017	\$30,678
05555	\$15,323	\$35,878

Fleet Management does not maintain adequate vehicle disposition records. We tested records for 86 vehicles that were disposed of in 1999-2000. The records did not contain information on the vehicle type or year. Disposition proceeds were recorded for approximately one half of the vehicles. Information on the proceeds of the remaining vehicles was omitted. In two instances, disposition proceeds recorded did not belong to Fleet Management. The proceeds belonged to other departments, but the proceeds were not transferred. Fleet Management did correct this error after it was brought to management's attention.

Variable rates charged by Fleet Management are two to three times above auditor compiled industry averages and are more than sufficient to cover fueling and maintenance costs. According to the Life-to-Date Revenues and Expenditures listing as of August 18, 2000, total lifetime variable rate revenue collected on current motor pool vehicles totals \$26,218,838. Lifetime expenditures for gasoline and maintenance are \$24,841,951. Even with excessive maintenance on numerous vehicles, the surplus revenue from variable mileage equals \$1,376,887.

Sound accounting practices require annual computation and review of rates. Accurate replacement cost information is necessary for rates to be accurately computed.

Complete records for mileage, maintenance, repairs, and salvage proceeds are also needed. All costs associated with an internal service fund need to be evaluated and allocated to user departments through monthly rates, as an internal service fund operates on a cost recovery basis.

Our recommendations:

- ◆ Develop and implement accounting procedures to maintain accurate records relating to vehicle mileage, maintenance, repairs, insurance costs, salvage value, and replacement costs.
- ◆ Develop and implement policies and procedures relating to length of collection for vehicle replacement fees.
- ◆ Research and use various industry averages to benchmark variable rates against actual costs.
- ◆ Develop and implement cost accounting procedures to recover all costs of operation.
- ◆ Establish a method to recover collision and comprehensive repair costs.
- ◆ Inquire of Risk Management the cost of including collision and comprehensive coverage on Motor Pool vehicle insurance.

Fleet Management Department's Response

- We concur with all of the recommendations. Adjustments to Motor Pool rates are anticipated during fiscal year 01-02. However, the current information system does not lend itself to closely monitoring vehicle costs or in creating more effective accounting procedures to track the wide variety of information required to make the most informed decision possible as it relates to vehicle repair, replacement, etc. As outlined in the RFP for a new Fleet Information and Management System, features and attributes of this new system, when installed, will enable Fleet Management to access the data that can be used to monitor, account for and track the important aspects of fleet operations. This information will allow for the creation of policies and procedures regarding vehicle repair and replacement.

Depreciation

12. Fleet Management does not maintain an accumulated depreciation schedule on a vehicle-by-vehicle basis.

Depreciation is a means of cost allocation of assets to expense to those periods expected to benefit from the use of the asset. A common misconception about depreciation is that it provides funds for the replacement of fixed assets, but funds for the replacement of assets comes from revenues. Without revenue, there is no cash

inflow and no assets can be purchased. A separate decision must be made by management to accumulate replacement funds. Depreciation is similar to any other expense in that it reduces net income, but it differs in that it does not involve a current cash outflow.

Fleet Management does not track depreciation and accumulated depreciation on a vehicle-by-vehicle basis. Instead, Fleet Management records an aggregate amount equal to the replacement fee (which includes the inflation factor) as depreciation expense and accumulated depreciation monthly. The method used by Fleet Management approximates a depreciation value, but a vehicle-by-vehicle listing is needed to calculate and record an accurate amount of depreciation. We created a list of current Motor Pool vehicles and calculated accumulated depreciation for Motor Pool vehicles to be \$10.2 million. Fleet Management is reporting Accumulated Depreciation of \$12.7 million. The calculations in our subsidiary list consider salvage value and depreciate vehicles over a six-year period.

A critical step in safeguarding assets is to record them at the time of acquisition and to verify their existence and value periodically. A vehicle-by-vehicle listing which records vehicle acquisition costs, salvage value, and accumulated depreciation is essential to safeguard and value assets.

Our recommendations:

- ◆ Develop and maintain an accurate depreciation schedule for Motor Pool vehicles.
- ◆ Adjust Accumulated Depreciation on financial statements to reflect depreciation schedule balance.

Fleet Management Responses

- We concur with both recommendations. During the course of this audit (Audit Report, Fleet Management Department for the F/Y ended June 30, 2000) operational suggestions were made by the Internal Audits Section staff that were responded to by this Department by implementing the recommended procedures.

Retained Earnings Reserved for Vehicle Replacement

13. The Retained Earnings Reserved for Vehicle Replacement, calculated on the aggregate Motor Pool fleet, does not reconcile to a vehicle-by-vehicle listing of amounts collected for replacement. Resolving this difference may have a profound effect on Motor Pool rates and Unreserved Retained Earnings.

Motor Pool's fixed monthly rental rates are comprised of replacement fees (that include an inflation factor), insurance fees, and overhead. Fixed monthly rental rates are recognized as revenue as they are collected. Replacement fees should be recorded as reserves for future vehicle purchases. Reserving replacement fees for future vehicle purchases reduces Unreserved Retained Earnings and increases Retained Earnings Reserved for Vehicle Replacement.

The process of reserving replacement fees for future vehicle purchases estimates amounts needed to replace existing vehicles. The longer replacement fees are collected, the larger the reserve for new vehicles becomes. The replacement portion of the monthly rental rates is dependent upon how long the vehicle is expected to be in service. The replacement rate will be higher if vehicles are replaced more often, as money will need to be set aside at a faster pace. When a vehicle is replaced, the reserve account is decreased by the purchase price of the new vehicle.

Fleet Management does not reconcile the vehicle replacement reserve (Retained Earnings Reserved for Vehicle Replacement) to a management report detailing replacement collected on a vehicle-by-vehicle basis. Fleet Management's accounting practices have resulted in the Retained Earnings Reserved for Vehicle Replacement balance being less than collected.

Fleet Management currently calculates Retained Earnings Reserved for Vehicle Replacement using the book value of Motor Pool vehicles plus an inflationary factor. Using the book value to calculate replacement underestimates the amount of money needed to replace a vehicle, as a 1994 vehicle will not be replaced with a 1994 vehicle, it will be replaced with a brand new vehicle. Amounts collected for replacement should be reserved for future vehicle purchases in the Retained Earnings Reserved for Vehicle Replacement to facilitate timely replacement of vehicles. Retained Earnings Reserved for Vehicle Replacement will increase each year by the dollar amount collected for replacement fees and decrease by the amount expended for new vehicles.

The current difference, which we estimate to be at least \$1.25 million, will need to be considered in setting future rates.

It is essential that replacement and inflationary fees collected be properly accounted for as a reserve of fund equity and that the reserve of fund equity be compared to management's periodic estimates of amount needed to replace vehicles.

Our recommendations:

- ◆ Reconcile Retained Earnings Reserved for Vehicle Replacement to the management report, Life-to-Date Revenue and Expenditures, which is a vehicle-by-vehicle listing.
- ◆ Adjust Retained Earnings Reserved for Vehicle Replacement balance to reflect the reconciliation.
- ◆ Adjust rates as necessary.

Fleet Management Responses

- We concur with all of the recommendations. These issues will be studied by staff from the department and CAO's Office when rate studies commence. Internal procedures will then be developed to assure accurate accounting and adjustment of rates to user departments.

Motor Pool Maintenance and Replacement Policies and Maintenance Expense

14. Inadequate and/or vague vehicle maintenance and replacement policies have contributed to excessive maintenance expenses. There are currently no policies in place requiring management to authorize costly repairs. Some maintenance performed on County vehicles seemed too costly in relation to the value of the vehicle. Maintenance costs are not tracked in an organized manner. Maintenance data includes costs for equipment and repairs other than maintenance. Available maintenance data is not effectively used for vehicle replacement decisions.

Fleet Management's current replacement policy states that cars should be replaced after six years and trucks after seven years of service. Current policy also states that vehicles should be marked for replacement when their value in replacement fees is collected or when the vehicle is fully depreciated (Standard Procedure 4-01).

Standard Procedure 5-04 states, "The Motor Pool publishes a report entitled 'Life-to-Date Revenues and Expenditures' – by vehicle (MP115MRC), which summarizes the maintenance costs on vehicles. This should be utilized to determine if and when a vehicle...should be 'moved up' in the replacement schedule."

When a vehicle requires maintenance and/or repairs, the vehicle is left at the Garage and, if necessary, a loaner vehicle is provided. The Garage bills the maintenance/repairs on a work order. The work order totals are compiled on the Garage Distribution Listing. A floppy disk version of the listing is forwarded to the Motor

Pool. The disk is used to update maintenance costs per vehicle on the Motor Pool's database.

Although procedures exist which outline the length of time a vehicle should be in service, the procedures do not take mileage or excessive maintenance/repairs into consideration. In addition, the procedures are not consistently followed, as 41.7% of all Motor Pool vehicles are older than six years. Because procedures do not exist to authorize repairs, costly and inappropriate repairs routinely occur. Although the Motor Pool's database tracks maintenance by vehicle number, the system does not compile total maintenance per vehicle nor track maintenance or repairs by type (for example total brake jobs, transmissions, tires per vehicle, etc).

Fleet Management does not track maintenance by type of work done. Fleet Management's failure to compile maintenance records by type of work done has led to recurring repairs costing thousands of dollars. In a sample of twenty vehicles chosen from the Motor Pool listing, the following was found:

- ◆ Vehicle 20064 – The transmission was replaced four times at mileage readings of 44,632 miles, 69,554 miles, 71,915 miles, and 113,280 miles. The transmissions added \$7,947 to the total cost of maintenance of the vehicle. The records also show the engine was replaced twice for a total cost of \$7,803. Both engine replacements listed mileage at replacement of 66,834 miles. The vehicle was purchased for \$16,287. Maintenance to date totals \$29,117.
- ◆ Vehicle 01277 – The front brakes were relined five times between 51,940 miles and 69,408 miles. The vehicle cost \$11,720. Repairs to date equal \$23,261.
- ◆ Vehicle 01449 – The vehicle sustained damage in two separate accidents. The total cost of repairs due to the accidents was \$13,192. Total maintenance costs, including the cost of repairs, total \$33,863. The vehicle originally cost \$11,754.
- ◆ Vehicle 01538 – A road call to this vehicle cost \$1,050. Road calls for other vehicles varied between \$40 and \$200.
- ◆ Vehicle 15104 – Maintenance costs on the vehicle totaled \$80,601, which is four times the purchase price of \$18,894. Costs included two transmissions and two charges for damages sustained in two separate accidents. The vehicle also had 15 tire replacements in 14,000 miles.
- ◆ Vehicle 05532 – The vehicle has had four alternators and five starters replaced. In addition, 16 tires were installed in 27,000 miles. The total maintenance costs on the vehicle total \$33,916. The vehicle cost \$11,276.

The "Life-to-Date Revenues and Expenditures" report does contain a total maintenance cost column, but the total given on the report includes costs other than maintenance. Other costs include equipment added to vehicles such as alarms, radios, and camper shells. Also included are costs of repairs and bodywork after accidents. When a vehicle is in an accident that is determined to be preventable by the driver, Fleet Management charges the department (who employs the driver) the costs of repairing the vehicle. Money collected is not deducted from maintenance costs of the vehicle; it credited to departmental revenue. Because of this practice, revenue for the Motor Pool and maintenance costs on repaired vehicles is overstated and management's ability to analyze the maintenance costs per vehicle is impaired.

When performing maintenance and/or repairs there are many times where the costs can exceed \$500. Motor Pool supervisors are not routinely contacted regarding expensive repairs, and authorization is not required before repairs are performed.

Excessive maintenance can be controlled with comprehensive maintenance and replacement policies, combined with authorization for repairs and detailed maintenance records. Sound business practices include use of the Life-to-Date Revenues and Expenditures report that identifies vehicles with high maintenance costs. Defined accounting procedures are essential for determining precise maintenance costs. Accurate accounting records are necessary to determine costs due to accidents.

Our recommendations:

- ◆ Develop and consistently follow policies for vehicle maintenance and replacement.
- ◆ Summarize and regularly review maintenance procedures and costs per vehicle.
- ◆ Include only maintenance costs in maintenance totals.
- ◆ Track repairs due to accidents separately from maintenance. Credit repair expenses for money reimbursed by departments.
- ◆ Do not include equipment added to vehicle in the maintenance total.
- ◆ Develop and enforce procedures for repair and maintenance authorization.

Fleet Management Department Responses

- We concur with all of the recommendations. The Department will update, amplify, and adhere to policies concerning vehicle maintenance and replacement. Procedures will also include guidelines for repair and maintenance authorization. We concur that current policies are not specific. The new Fleet Management Information System will provide the capability to separately track maintenance costs only bodywork due to accidents or vandalism, and additional equipment added at customer requests.

(III) GARAGE/WAREHOUSE

The Garage/Warehouse Division of Fleet Management provides fuel, maintenance, repair, and field service for the county's fleet of vehicles and heavy construction equipment. The Garage/Warehouse includes warehousing of parts and related construction materials to support the fleet operations. Activities and programs of the Garage/Warehouse are financed and accounted for as an internal service fund. The Garage/Warehouse distributes operational costs to user departments through service rates. Individual cost centers account for the Garage/Warehouse's various functions. The cost centers are Auto Shop, Fuel and Security, Heavy Equipment, Warehouse, and Weld Shop.

The Auto Shop manages the repairs of county cars and trucks. The Auto Shop encompasses the Parts Room and the outlying Service Centers. The Fuel and Security cost center includes gasoline and compressed natural gas fueling locations throughout the county. In addition, the Fuel and Security section provides guard service for various departments and is responsible for fuel spill cleanups. The Heavy Equipment shop is used primarily by Transportation-Flood Control and Special Districts for repairing their heavy equipment. The Warehouse cost center consists of the Warehouse located at Fleet Management, the Tire shop, and two storerooms. Until June 30, 2000, the Warehouse cost center included Central Stores. The Weld Shop functions are welding repairs on machinery and fabrication of apparatus for vehicles or equipment.

We evaluated the Garage/Warehouse accounting procedures used to track cost center revenues and expenses that are used in rate calculations. We calculated income per cost center. To replicate current departmental structure, we eliminated Central Stores from the computations. We tested a sample of revenue and expense transactions for accuracy and completeness. Finally, we reviewed procedures for Voyager fuel credit cards.

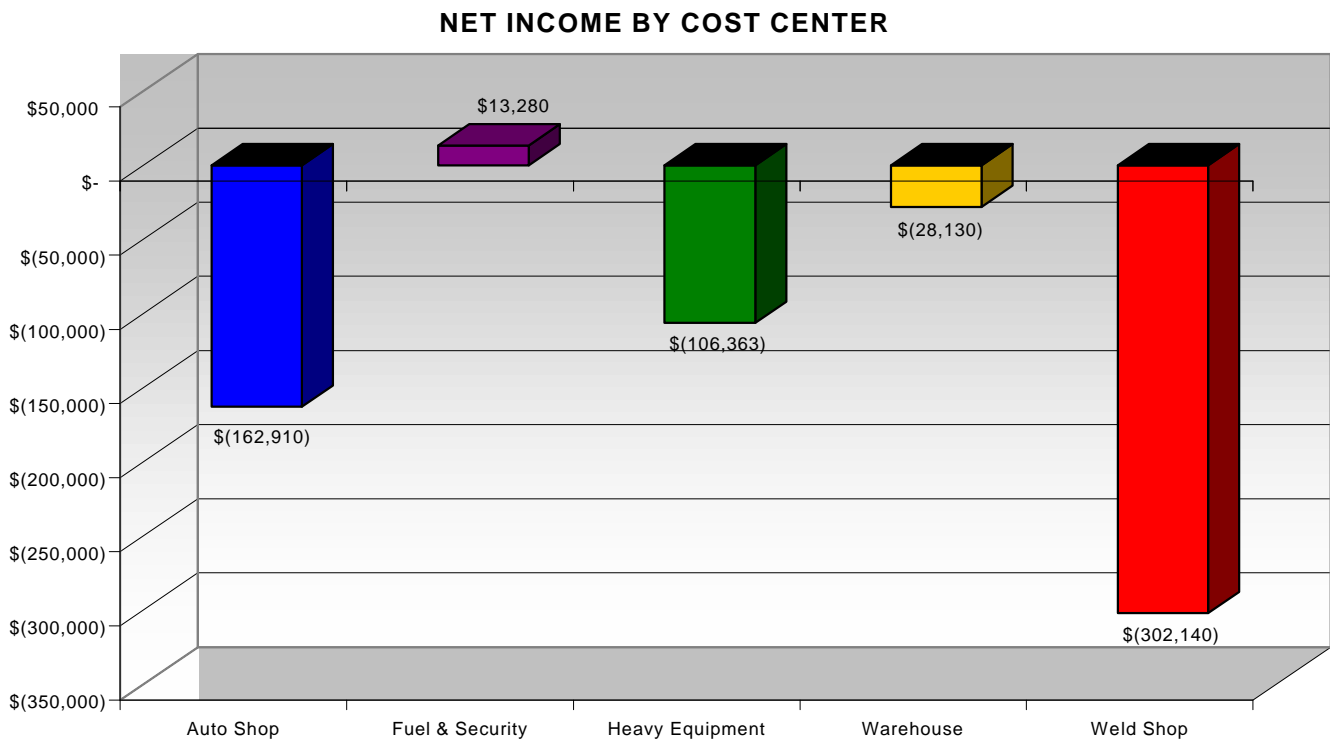
Garage/Warehouse Rates

15. The Garage and Warehouse do not monitor or adjust rates annually to reflect changes in expenses and/or revenues. The Garage overcharges the Motor Pool for services performed. The Garage and Warehouse cost accounting system does not give accurate information to set rates and recover costs of operations. Accurate accounting records are not maintained for Cost of Goods Sold and Salaries expense.

The Weld Shop and Heavy Equipment Shop charge \$50 per hour for work performed. Materials are invoiced with 35% overhead. The Auto Shop charges a flat rate for some types of services performed on vehicles. Service writers use a variety of flat rate books for various types of services. Other repairs are charged on an hourly basis at \$50 per

hour. Parts used in vehicle repair are billed on a tiered basis with 15% to 35% overhead. The Warehouse charges 14% overhead on goods sold. Fuel and Security charges \$.25 per gallon overhead.

In our review of the rates, we calculated the net income per cost center to calculate the revenue needed to cover expenses, but as mentioned above, insufficient accounting records made the determination difficult. We calculated net income for the five cost centers based on the available records. Revenue and expenses in the OVH and VHS cost centers are distributed based on total salaries per cost center. Total Business Office salaries are distributed in the same manner. Business Office salaries include all Business Office personnel as well as salaries for the Garage supervisor and the Service Writers. One half of Business Office salaries are allocated to the Motor Pool for administrative support. Central Stores was omitted from our calculations, as they are no longer part of Fleet Management. According to the Business Office Supervisor, expenses and salaries in OVH and VHS will not decrease as a result of Central Stores leaving Fleet Management, so expenses and salaries were not adjusted downward. The following shows our approximation of net income per cost center based on the available data and trial balance amounts as of June 30, 2000.



Net income calculations are based on the following:

	Auto Shop	Fuel and Security	Heavy Equipment	Warehouse	Weld Shop
Operating Revenue	4,409,123	4,724,532	1,859,856	1,385,717	937,987
Overhead Revenue	(368,789)	(226,800)	(184,350)	(108,081)	(140,671)
Total Revenue	4,040,334	4,497,732	1,675,506	1,277,636	797,316
Supplies	1,689,639	3,907,805	657,952	1,072,188	218,641
Salaries	2,104,967	482,912	941,126	195,634	737,614
Overhead	408,638	93,735	182,791	37,944	143,201
Total Expenses	4,203,244	4,484,452	1,781,869	1,305,766	1,099,456
Net Income	\$ (162,910)	\$ 13,280	\$ (106,363)	\$ (28,130)	\$ (302,140)

Operating revenue consists of goods sold and labor charges. Adequate accounting records do not exist to determine the amount of operating revenue contributed to goods and the amount contributed to labor by cost center.

While reviewing work order billings, we discovered that the Auto Shop is charging the Motor Pool approximately \$5,000 monthly for miscellaneous charges. The miscellaneous charges, which are not charged to specific vehicles, include test-driving vehicles, inspecting vehicles, and doing minor repairs to cars that are going to be sold. The miscellaneous charges are duplicative, as test driving and inspecting vehicles is part of the repair process that is charged to specific vehicles. The charges for minor repairs done to vehicles that are going to be sold is also questionable, because (according to the Motor Pool supervisor) these vehicles are not repaired. Total for miscellaneous charges billed to the Motor Pool for fiscal year 2000 equaled \$63,738.

Accurate cost tracking is essential to determine net income per cost center. Likewise, recording revenues and expenses to appropriate cost centers is necessary to determine user rates. Sound accounting practices dictate avoidance of duplicate charges.

Our recommendations:

- ◆ Develop and implement accounting procedures to maintain accurate records relating to cost centers.
- ◆ Develop and implement cost accounting procedures to cover costs of operations in the fee schedule.
- ◆ Review rates yearly to determine that rates are effectively covering costs of operation.
- ◆ Stop duplicating charges on Motor Pool billings.

Fleet Management Response

- We concur with all of the recommendations. Department and CAO staff will be addressing these issues and will develop internal procedures to assure accurate records are maintained.

Accounting Procedures for Tracking Cost Center Revenue and Expenses

16. Cost of Goods sold cannot be determined, as records are not maintained on cost of goods transferred among cost centers. The Parts Room is not accounted for as a separate cost center, so efficiency of the Parts Room cannot be determined. Billable hours versus actual hours spent on repairs and/or maintenance cannot be determined because no totals are available on actual hours spent on repairs and maintenance. FAS records for labor distribution per cost center are inaccurate. Reports used for billing purposes do not provide enough detail. Reports used to reclassify income are outdated and the source of the data on some reports is unknown.

Fleet Management's financial records are maintained on the county's Financial Accounting System (FAS). Fleet Management records revenues and expenses in the department's fund on an organizational (ORG) or cost center level. Cost centers include Auto Shop (AUT), Heavy Equipment Shop (HEQ), Weld Shop (WLD), Warehouse (WAR), Fuel, and Petroleum (PET). Some items are recorded in the overhead (OVH) or Vehicle Services (VHS) ORG. These items are either reclassified to cost centers, or allocated to the cost centers as overhead based on payroll totals for the cost center. Billing for the cost centers is accomplished using the work order system. Parts, actual labor hours, and billable hours are input into the system by the Service Writers. The Garage Distribution listing compiles the work orders and the Business Office invoices the appropriate department using the listing. The Garage Distribution Recap spreadsheet is prepared from the Garage Distribution listing. The Garage Distribution Recap spreadsheet is utilized to reclassify revenue from OVH to the various cost centers. At year-end, revenue in OVH and VHS should equal zero.

In testing expenses for the cost centers, we could not ascertain a true cost of goods sold for the various cost centers. Most goods are purchased through the Parts Room whose expenses are accounted for in the AUT cost center. When goods are transferred to another cost center within the fund, the cost of goods is not transferred which results in understating expenses for some cost centers while overstating expenses for AUT. Labor costs were also difficult to determine, as some employees are coded to the wrong cost center, and actual labor costs spent repairing vehicles, although input into the system, are not compiled on a report; only billed hours are reported. In addition, labor costs for the Parts Room are unknown, as Parts Room personnel are assigned to various cost centers. Five Parts Room employees are charged to the AUT cost center,

two Parts Room employees are charged to the HEQ cost center, and one Parts Room employee is charged to the WLD cost center.

According to the Business Office Supervisor, the Parts Room was originally accounted for as a separate cost center, but this practice was stopped approximately four years ago. When the costs of the Parts Room cannot be determined, the costs and efficiency of the Parts Room operations cannot be established.

In reviewing reports used by Fleet Management to reclassify income, we noted the reports were designed a number of years ago, the reports have not been updated for changing conditions, the source of some of the data contained in the reports is unknown, and the reclassification of the income does not reconcile to the original amount of revenue collected. At fiscal year end, VHS revenue had a balance of \$354,210 and OVH revenue had a balance of (-\$1,382,900), because reconciliation of the income reclassification was not done. Both VHS and OVH year-end revenue should equal zero. To determine the amount of income from VHS and OVH attributable to the cost center's income, we distributed VHS and OVH revenue in the same manner as overhead expenses, based on payroll totals for the cost centers. We computed payroll totals by cost center using the EMACS payroll system. We queried EMACS payroll totals for the year by employee; then on a person-by-person basis, determined which cost center the employee should be charged to. Finally, we constructed a spreadsheet showing the itemization of labor expense per cost center.

Accurate accounting records are essential to determine net income per cost center. Accurate net income per cost center is required to calculate appropriate rates. Knowledge of available reports promotes effective use of the reports.

Our recommendations:

- ◆ Develop and implement accounting procedures to maintain accurate accounting records.
- ◆ Implement procedures to transfer expenses between cost centers.
- ◆ Implement controls to determine that employees are coded to the correct cost centers.
- ◆ Develop and implement a system to track costs for the Parts Room.
- ◆ Update reports to reflect current business conditions.
- ◆ Research reports to familiarize users with data contained in reports.

Fleet Management Response

- We concur with all of the recommendations. Department and CAO staff will be addressing these issues and will develop internal procedures to assure accurate records are maintained.

Voyager Credit Card Procedures

17. Employee identification is not required to purchase gasoline using the Voyager card. User departments do not submit all receipts to Fleet Management.

Fleet Management has approximately 800 Voyager credit cards issued, but only one half of them are consistently used. Credit cards are used for gasoline, oil, and any supplies needed for minor vehicle repairs. Credit cards purchases are authorized only when a County fueling station is unavailable. When a department requests a credit card for a vehicle, the department completes a credit card request form. When the card is issued, a log book is signed by the employee picking up the card which shows the employee's identification number, date, phone number, card number, and the vehicle number of the car the employee drives.

When a purchase is made at a gas station, the employee is required to input the pin number (the vehicle identification number) and the odometer reading of the vehicle. The gas pump generates a receipt that the employee is supposed to give to their supervisor. The supervisor is responsible for sending receipts to Fleet Management. Receipts that include miscellaneous items are examined by Fleet Management for unauthorized charges. Unauthorized charges include snacks and personal items. Receipts for gasoline only purchases are not examined.

There are approximately 15 Voyager station cards that are Voyager credit cards kept at various gas stations throughout the County. When an employee does not have a card issued directly to them, the employee may stop at any of the gas stations that have a "station card" and fuel the vehicle by giving the vehicle number and odometer reading. In most instances, the employee is responsible for obtaining the receipt from the station and submitting it to their supervisor. The exception noted was the "station card" at a Needles service station, where the station manager mails all receipts to Fleet Management.

After Fleet Management receives the receipts, the receipts are reviewed for miscellaneous items. Fleet Management does not routinely review receipts for gasoline. Total Voyager purchases including gasoline and miscellaneous items equal approximately \$20,500 monthly.

Sound accounting practices require that receipts for purchases be adequately documented and periodically spot-checked to determine the appropriateness of transactions.

Our recommendations:

- ◆ Evaluate the number of credit cards issued. Consider issuing credit cards at the department level rather than by vehicle number.
- ◆ Require employee identification numbers on all receipts.
- ◆ Spot-check gasoline receipts to verify mileage and vehicle numbers on receipt.
- ◆ Develop and enforce sanctions for departments that do not submit credit card receipts.

Fleet Management Department's Responses

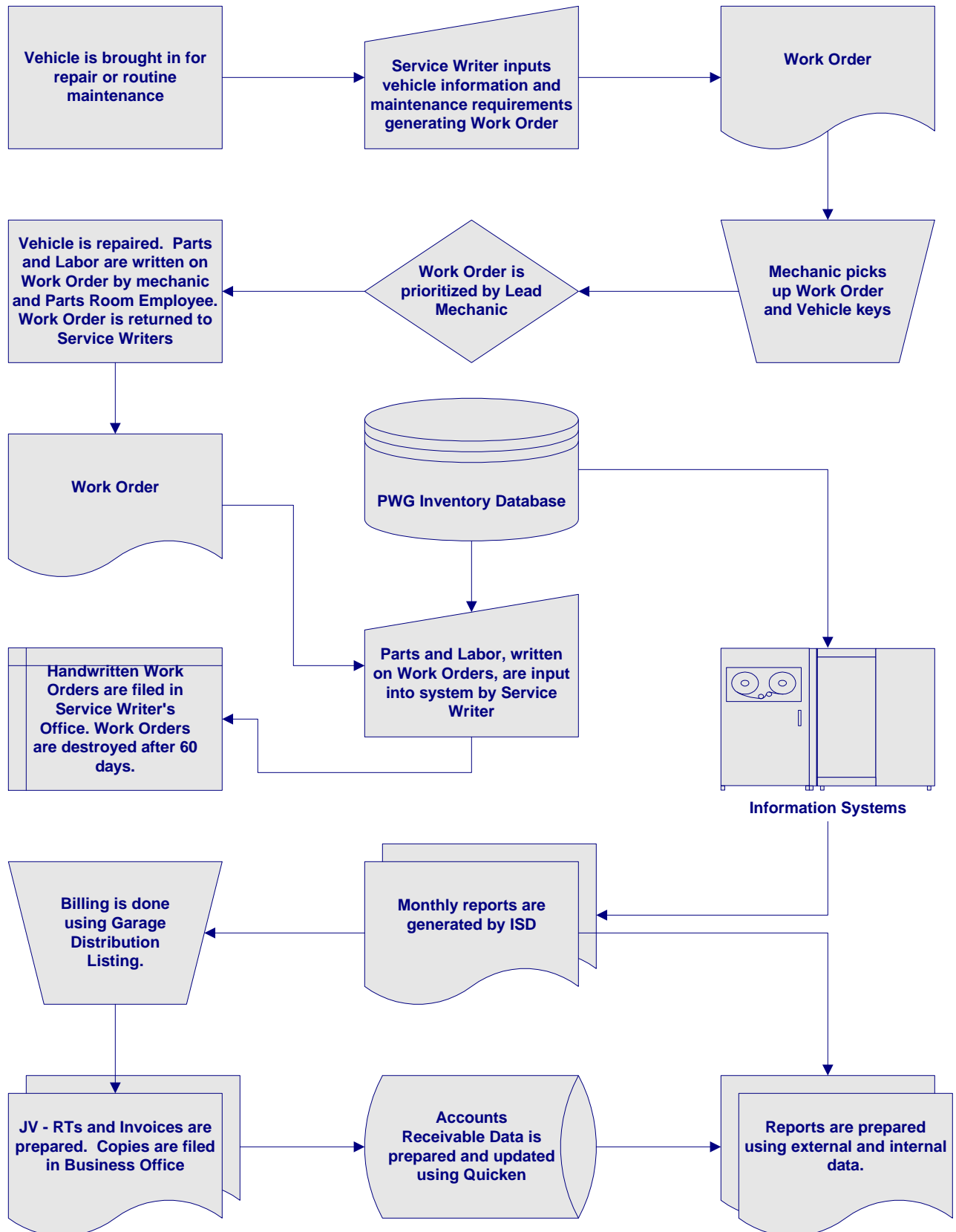
1. We do not concur. However, we will contact big user departments for their input and possible controls.
2. We concur. Currently, we request that employee identification numbers are on all receipts. In addition, we will get more aggressive to ensure County employees include County I.D. numbers.
3. We concur. We currently spot check and verify mileage reports.
4. We concur. We are currently reviewing procedures to enforce this request.

Copies to:

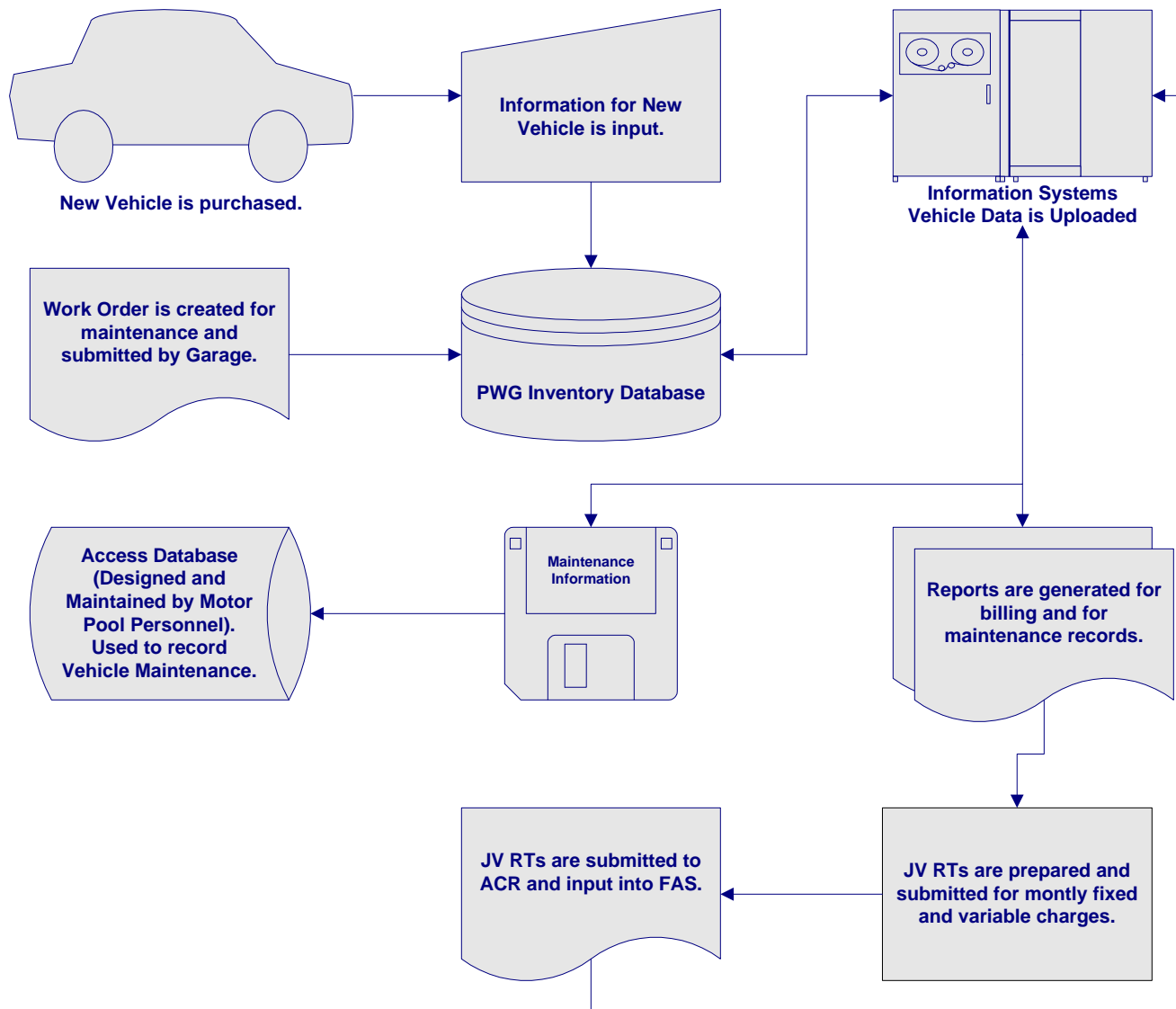
County Administrative Office
Asst. County Administrative Officer
Board of Supervisors
Grand Jury (2)
Audit File

Date Report Distributed: May 25, 2001

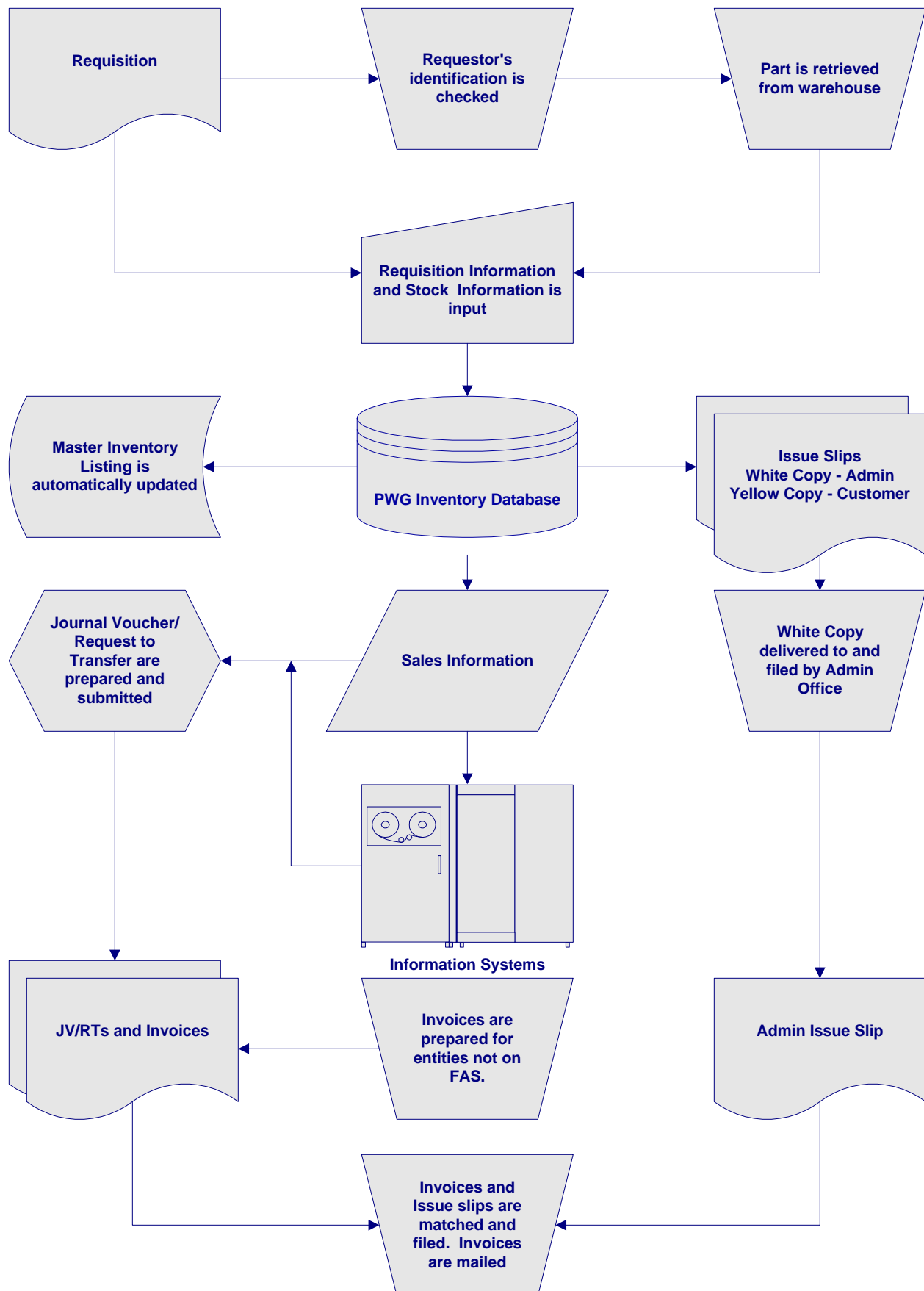
WORK ORDER PROCESS



MOTOR POOL PROCESS



WAREHOUSE SALES PROCESS



VEHICLE SERVICES DEPARTMENT

BOARD OF SUPERVISORS

COUNTY ADMINISTRATIVE
OFFICE

GENERAL SERVICES GROUP

VEHICLE SERVICES DEPARTMENT

Motor Pool

Dispatching
Billing
DPSS Service
Center
Replacement

Garage

Service Writers
Auto Section
Heavy Equipment
Section
Weld Section
Parts Section
Service Centers
Barstow
Needles
29 Palms
West Valley

Central Warehouse

Central Stores
Vehicle Services
Tire Shop
Facilities Mgmt
Storeroom
Information Services
Storeroom

Fuel & Security

Fuel Purchases
CNG Program
Tank Replacement

Business Office

Accounting
Payroll
Monthly Closing
Internal Service
Fund

Safety Office

Workers Comp
OSHA-Cal OSHA
Emergency
Coordination

INTEROFFICE MEMO



COUNTY OF SAN BERNARDINO

DATE August 3, 2000

PHONE: 386-8931

FROM: **Vicki Kratzke**
Internal Audits Section
Office of the Auditor/Controller-Recorder

TO: **DISTRIBUTION**

SUBJECT: REQUEST FOR INFORMATION RE: MOTOR POOL

To evaluate the services provided by Vehicle Services Motor Pool, we are requesting the following information:

1. Does Vehicle Services provide you with a suggested preventative maintenance schedule for your vehicles? How are you informed of your next scheduled maintenance check up?
2. Does your office track mileage and maintenance on the vehicle(s)? If yes, how often is this data reviewed?
3. Please rate the following on a scale of 1-5 (1=poor:5=excellent)

Convenience of Garage locations and hours?

Convenience of gasoline pump and car wash locations?

Timeliness of service provided by Vehicle Services Garage?

Quality of service provided by Vehicle Services Garage?

Quality and quantity of information provided relating to maintenance and repairs?

Quality and reliability of Motor Pool vehicles?

Fairness of Motor Pool rates?

Courtesy of Vehicle Services Staff?

4. If you have addressed any concerns with Vehicle Services, were your concerns handled in a timely, courteous manner?
5. What do you like best about doing business with Vehicle Services Motor Pool?
6. What could Vehicle Services do to improve their customer service?
7. Any further questions or comments on service or rates?

Please complete and return this survey, by August 18, 2000, to:

Vicki Kratzke
Auditor-Controller/Recorder
Internal Audits Section
222 West Hospitality Lane
San Bernardino, CA 92418

**INTERNAL SERVICES GROUP
VEHICLE SERVICES DEPARTMENT**

Your vehicle was serviced/repaired by:

Items inspected and/or repaired

Vehicle Number: _____ Date: _____

- | | |
|---|---|
| <input type="checkbox"/> Service (oil/filter) | <input type="checkbox"/> Brakes % F____ R____ |
| <input type="checkbox"/> Safety Inspection | <input type="checkbox"/> Air Conditioning |
| <input type="checkbox"/> Tune Up/Smog | <input type="checkbox"/> Electrical |
| <input type="checkbox"/> Transmission | <input type="checkbox"/> Tires |
| <input type="checkbox"/> Motor Pool Prep | <input type="checkbox"/> Other _____ |

Exhibit 6 - Page 43

PLEASE COMPLETE AND RETURN TO:

**VEHICLE SERVICES DEPARTMENT
ATTENTION:
DIRECTOR OF FLEET MANAGEMENT**

INTEROFFICE MAIL - 0842

Customer Service Survey

- | | YES | NO | N/A |
|--|--------------------------|--------------------------|--------------------------|
| 1. Were the Vehicle Services' employees professional, courteous, & responsive? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Was the requested service completed in a timely manner? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Were the requested repairs accomplished? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Did the Motor Pool meet your needs? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Was the condition of the Motor Pool vehicle satisfactory? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Were you assisted at the fuel islands (fluid levels, tires, etc.)? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Overall were the services provided by the department to your satisfaction? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Comments or Suggestions

Reply requested ☐ YES ☐ NO

Your name _____

Phone number _____

Department _____

(optional - required for reply)

Use reverse side for additional comments.